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## CURRENT SUPPORT BRIEF

ECONOMIC DEVELOPMENTS IN POLAND IN 1960

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ECONOMIC DEVELOPMENTS IN POLAND DURING 1960

The Polish national product continued to expand rapidly during 1960, with the largest growth rates in industrial and agricultural production since 1957.\* However, because a large part of the increase in output was used to reduce the foreign trade deficit or was added to inventories, personal consumption stagnated and the growth of capital investment slowed markedly.

Economic developments in 1960 brought the Five-Year Plan of 1956-60 to a fairly successful conclusion. Industrial production during the plan period grew nearly as scheduled, and agricultural production, although well below plan, increased more rapidly than in any other European satellite. Similarly, the increase in personal consumption during 1956-60, although considerably less than planned, compares very favorably with the achievements of other satellites. Net capital investment grew essentially as planned, but costs and construction periods exceeded plan, and numerous projects were not completed.

Developments in 1960 also provided a basis for a relatively smooth transition to the Second Five-Year Plan (1961-65). A substantial growth in capital investment is scheduled for 1961, but acute inflationary strains probably will be avoided partly because of the more effective financial controls over enterprises introduced in 1960. Last year's revision of producer prices and inauguration of basic wage reforms should contribute to the better utilization of materials and labor necessary for fulfilling the 1961 economic plan. Fulfillment of 1961 plans also will depend, however, on continued worker acceptance of the regime's austerity program. Furthermore, the Polish economy will be subject to increasing strain over the next few years, unless investment costs and construction periods can be substantially reduced, or new foreign credits can be obtained.

Plans for 1960

Polish economic plans for 1960 reflected the concern of the Gomulka regime with inflationary strains which had developed during 1959. A large increase in capital investment, under conditions of inadequate financial controls, combined with a decline in agricultural production had resulted in an acute shortage of quality foods on the domestic consumer market, excessive costs and delays in completing key investment projects, and a considerably larger increase in the foreign trade deficit than expected. For 1960, the regime planned a slower growth of domestic expenditures than of the national product in order to reduce the trade deficit. Capital investment was to rise 6 percent and personal consumption, only

\* The increase in gross agricultural production was nonetheless small.

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1 or 2 percent, compared with claimed 1959 gains of 17 and 16 percent, respectively. To implement the "austerity" program and stabilize the consumer market, controls were tightened over wages and the investment expenditures of enterprises.

The "austerity" program--parts of which were enacted towards the end of 1959--proved even more effective than originally intended. Personal income declined in the first half of 1960, as a result of reductions in wage rates, employment, overtime work, and social welfare payments. The regime allowed the reduction in income to last longer than had been planned, both because worker reaction was generally mild and because early 1960 prospects were for another poor year in agriculture. As employment and personal income expanded sizably only during the final months of the year, personal consumption did not rise for 1960 as a whole. The planned growth of capital investments also was not attained, partly because of limitations on employment in construction and more stringent bank controls over the initiation of projects.

Plan Fulfillment in 1960

The Polish national product grew by nearly 5 percent in 1960, a somewhat smaller increase than had been planned. Net industrial production rose an estimated 8.5 percent, an increase attained with almost no growth in industrial employment or average wages. Production goals were exceeded for basic commodities generally and also for numerous consumer items--in the latter case partly because of large increases in exports and in domestic inventories. Despite adverse weather conditions during parts of the year, gross agricultural production rose by an estimated 2 percent due in large measure to the considerable efforts of the private peasants. As had been expected, the foreign trade deficit declined sharply--from US\$ 274 million in 1959 to US\$ 171 million in 1960. Exports rose by nearly 16 percent, including large gains for machinery and equipment as well as for industrial consumer goods; whereas expansion of imports was restricted to 5.3 percent.

Among less favorable developments was the failure of personal consumption to increase--for the first time since the early 1950's. The workers' diet worsened slightly, and purchases of textiles and numerous other non-food consumer items declined. The consumer did benefit, however, from the return of market stability. Net capital investment rose by only 3 percent in 1960, the smallest growth since 1956; whereas inventories increased about 50 percent more than planned. The increase in inventories--largely non-food consumer goods--resulted primarily from rising output at a time when food prices had risen faster than personal incomes, thereby absorbing a larger share of consumer expenditures.

Conclusion of the Five-Year Plan

The year 1960 marked the fairly successful conclusion of the Five-Year Plan for 1956-60. All major sectors of the Polish economy expanded considerably during the period, although some sectors substantially underfulfilled the ambitious tasks assigned under the Plan.

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Annual growth of the Polish national product averaged 6 percent, one of the most rapid among the satellites. Net industrial production rose 47 percent, nearly as much as scheduled, in contrast to a general nonfulfillment of industrial targets under the Six-Year Plan (1950-55). Gross agricultural production rose an estimated 17 percent, well below the proposed 24-percent increase, but a very favorable development in comparison with the stagnation of Polish production during 1951-55 and the 1956-60 record of the other satellites.

During 1956-60, per capita personal consumption rose nearly 20 percent, also well below plan, but one of the largest increases among the satellites and greatly above the Polish achievement during 1951-55. Partly as a result of the rise in consumption, popular discontent with living conditions in Poland--although still nearly universal--is not as acute and does not present as great a threat to political stability and economic efficiency as in 1955-56. Net capital investment rose 52 percent during 1956-60--approximately as planned. A large share of industrial investments was used to complete projects initiated before 1956; and because of unexpected increases in costs, many new projects scheduled under the plan were not completed.

During 1956-60, both imports and exports rose by about 48 percent in constant prices--virtually as planned. Polish terms of trade worsened considerably however; and in current prices, imports rose by nearly 60 percent and exports by only 44 percent. Partly because of falling prices for Polish coal, Poland had to export 11 percent more goods in 1960 than in 1955 to pay for a given amount of imports. Had there been no worsening in the terms of trade, the trade deficit--which accumulated to nearly US\$ 1 billion during 1956-60--probably would have been substantially lower. A surplus in the exchange of services covered part of the trade deficit, but foreign credits financed most of it. These credits--a large portion supplied by the United States--were a key factor in permitting the substantial growth of both capital investment and personal consumption during the Polish Five-Year Plan.

Prospects for 1961

The year 1961 marks the beginning of the Second Five-Year Plan (1961-65), in which rapid expansion of capital investment is emphasized. In 1961, the regime intends to maintain the growth of national product approximately at the 1960 rate while increasing capital investment by 9.5 percent and personal consumption by 4 percent. The latter increases are to be attained in part by a one-third reduction in the growth of stocks and a small increase in the foreign trade deficit. The inflationary strains of 1959 probably will be largely avoided in 1961, as proposed increases for domestic expenditures are more conservative than those of 1959 and state enterprises have tended to be more responsive to financial plans since last year's introduction of more rigid central controls over wages and investment expenditures.

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Economic goals in 1961 rely in part on greater economy in the utilization of materials and on an additional large increase in labor productivity. The completion in 1960 of a revision of producer prices and the launching of basic reforms of wage norms and the bonus system should provide more effective economic incentives for accomplishing these objectives. Success of the 1961 plan will also depend on continued worker acceptance of the regime's "austerity" program, as only small increases in average wages are scheduled. Large-scale introduction of revised wage norms this year--which should lower some workers' income while raising others'--could result in demonstrations at individual plants similar to those encountered early in 1960. However, the regime generally has been cautious and flexible in wage disputes and could utilize its large retail-trade inventories to raise consumption faster than planned if warranted by political considerations.

Tighter financial controls over domestic expenditures, increased efficiency in certain areas, and lack of active popular opposition nonetheless will not insure the maintenance of rapid economic growth during the next few years. There has been a progressive absorption of excess industrial plant capacity and labor since 1955, so that increased output will depend more and more on investment. In the past, investment costs and construction periods for new plants have far exceeded planned estimates. Consequently, although plans for 1961 may well be fulfilled, the Polish economy will be under progressively increasing strain in succeeding years unless efficiency in capital investment is greatly increased or new foreign credits are secured.

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